COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF LOUISVILLE GAS AND ELECTRIC COMPANY FOR AN ORDER APPROVING CERTAIN ACCOUNTING TREATMENT FOR AND AUTHORIZING RECOVERY OF COAL CONTRACT TERMINATION COSTS	)	CASE NO. 96-089

O R D E R

IT IS ORDERED that Louisville Gas and Electric Company ("LG&E") shall file an original and 10 copies of the following information with the Commission, with a copy to all parties of record. Each copy of the data requested should be placed in bound volume with each item tabbed. When a number of sheets are required for an item, each page should be indexed appropriately, for example, Item 1(a), Page 2 of 6. Include with each response the name of the person who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. This response to this request is due no later than June 28, 1996.

1. Under the agreements with Andalex Resources, Inc. ("Andalex") and Peabody Coal Sales Company ("Peabody"), LG&E contracted to annually purchase a base quantity of coal totalling 2.1 million tons during 1994 through 1999. The replacement agreement with Peabody requires LG&E to annually purchase a base quantity of coal totalling 1.0 million tons during 1996 through 1999.

a. Does LG&E need the 1.1 million tons of coal no longer purchased under these agreements?

b. How is LG&E securing this additional 1.1 million tons?

c. If LG&E is securing a portion or all of the 1.1 million tons through spot market purchases, should the cost of the spot market purchases be reflected in the savings analysis? If no, explain why. If yes, where did LG&E reflect this cost in its submitted analyses?

2. Section 8.2 of the Andalex agreement provides for a price review during the last quarter of 1996. Under the terms of this section, should the parties be unable to agree upon new rates for coal by December 1, 1996, the agreement would terminate as of December 31, 1996 without liability to either party.

a. Did LG&E analyze the option of waiting one more year before terminating the Andalex agreement? If yes, provide copies of the analysis performed. If no, explain why this option was not considered.

b. Why did LG&E believe it was desirable to utilize the early termination option, which reduced the gross savings by $3.5 million, rather than waiting a year and terminate the agreement without incurring the $3.5 million buyout cost?

3. Refer to the response to Item 2(b) of the Commission's April 25, 1996 Order. LG&E states that the original Peabody agreement, Contract No. 93-255-026, was terminated without any cost or obligation being incurred by LG&E. However, under Section 13 of that agreement, page 25 of 41, it is indicated that if the agreement was terminated effective January 1, 1996, the terminating party would owe the other party

$3.85 million. Reconcile the response to Item 2(b) with the requirements contained in Section 13 of the agreement. Include copies of any documentation which clarifies the response.

4. Refer to the response to Item 8 of the Commission's April 25, 1996 Order. LG&E states that the Andalex agreement was a firm contract only through December 31, 1996, while the new Peabody agreement is only firm through December 31, 1997. LG&E appears to assume that the benefit period of the buyout is related to the period of time an agreement is considered a firm contract.

a. Why is an agreement's status as a firm contract a factor to be considered when determining the benefit period for the buyout cost?

b. Based upon what appears to be LG&E's argument in this response, explain why the buyout costs should not be amortized through December 31, 1997.

5. Concerning the amortization of the buyout cost:

a. Would LG&E agree the Andalex agreement states that the term would continue through December 31, 1999, subject to Section 8.2?

b. Would LG&E agree the new Peabody agreement states that the term would continue through December 31, 1999, subject to Section 8.2?

c. Regardless of whether the agreements are firm or not, won't LG&E and its customers benefit from the buyout of the Andalex agreement through December 31, 1999?

d. If no to (c), explain why the benefits to LG&E and its customers will terminate before December 31, 1999.

e. Does LG&E agree that matching the benefit period with the buyout cost amortization period is appropriate? If no, explain why.

Done at Frankfort, Kentucky, this 12th day of June, 1996.

PUBLIC SERVICE COMMISSION

Linda K. Breathitt

For the Commission

ATTEST:

Don Mills

Executive Director